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Opinion: Maryland needs tax change to attract military retirees, boost economy

Full exemption for military retired pay would stem migration to other states

By **Tom Jurkowsky**, published on: December 27, 2022

The Maryland General Assembly will soon convene for its 2023 session. When it does, it will have a golden opportunity to increase state revenues by passing legislation that would fully exempt military retired pay from state income tax. Such legislation would help stem a migration of skilled and experienced personnel who retire from the military and leave the state because of state income tax or tax rates higher than other states. Instead, we should encourage them to pursue careers in Maryland after they retire from the military.

Legislators in more than 20 states during the past four years — some led by Democrats, some led by Republicans — have seen the financial value of fully exempting military retired pay. More than three dozen states already exempt that pay entirely, nine of which don't tax any income, including military benefits. Just this year, legislators in several states have approved measures that include the retired pay exemptions. About a dozen states, including Maryland, allow for some tax credits or partial exemptions for military retired pay.

The states that have made or are making military retired pay fully tax-exempt see their approach as an investment that generates additional income for their treasuries and contributions to their GDP. When military personnel retire in a state and pursue their next careers there, states reap tax revenues from those post-retirement jobs. Very few retired military personnel can live on their military pensions and other retirement income. Most require a career that will generate income, which, appropriately, will be taxable.

Several years ago, the Maryland General Assembly directed a study to examine the financial impact of retired military service personnel on the Maryland economy. That study, undertaken by the Towson University Regional Economic Studies Institute (RESI) found that: "If Maryland does not exempt military retired pay from the state and local income taxes ... countless others [retired service members] will opt to move to military retiree-friendly states."

The tax structures for taxing retired military pay in three states contiguous to Maryland — Pennsylvania, Virginia and West Virginia — are incentives for many military personnel retiring from active duty. At a hearing about this issue in the last legislative session, an individual said she was amazed at the number of cars with Delaware, Pennsylvania or Virginia tags leaving Fort Meade every evening.

Are there opportunities in Maryland for retired military personnel? The answer is clearly yes. For example, the Fort Meade Alliance, an independent trade group whose goal is to help drive economic growth in Maryland, says any recruiter in the Fort Meade region's technology industry will

acknowledge a profound and persistent shortage of skilled cybersecurity workers. On any given day, more than 20,000 cybersecurity jobs alone stand vacant.

Quite simply, Maryland is a good fit for retired military. The Defense Department spends \$26.3 billion in the state, and defense spending represents 5.8% of the state's GDP. There are more than 96,000 defense personnel in the state, about half in uniform and the other half civilians.

Clearly, opportunities exist for those military personnel who retire or leave active duty. But with so many military personnel assigned in the state, why the large number of vacancies? According to the Towson study, while military retirees have access to ample employment opportunities, a key factor when deciding where to live post-retirement is the tax burden.

The Tax Foundation, a tax policy research organization, recently issued its 2023 State Business Tax Climate Index. Maryland did not fare well in the organization's assessment. It ranked 46th out of the 50 states for having the worst tax climate.

Maryland's already high tax rate and its high cost of living makes exempting retired military pay a critical issue. It's an incentive for a military person to retire in a state and not have their military pension taxed. Military retirees are higher wage earners who represent the type of individuals Maryland should be trying to attract and retain.

The Towson study also stated that when military retirees re-enter the workforce, their taxable income generates an economic impact in addition to that of their military pensions. Their "second careers" can last from 15 to 25 years. Military retiree household spending — groceries, rent, mortgage payments, automobile purchases and recreation spending, to name a few items — also benefits the economy.

Immediate tax relief for military retirees in Maryland is a fiscally sound option to attract and retain valuable individuals — good neighbors who pay their bills, volunteer in the community and have an appreciable level of discretionary income. The other 38 states have learned this and are catching on — losing a little in revenue but building a stronger fiscal base by increasing the number of state taxpayers.

Those states that understand the economics of exempting military retired pay will reap the benefits that come with creating an attractive fiscal landscape.

When Gov.-elect Wes Moore promises "to leave no one behind," that should include military retirees. If the Legislature doesn't act to exempt military retired pay, Maryland itself will continue to be left further behind.

Tom Jurkowsky is a retired Navy rear admiral. He is on the board of the Military Officers Association of America, a military support organization that advocates for a strong defense and for all military personnel and their families. He is the author of "The Secret Sauce for Organizational Success: Communications and Leadership on the Same Page." He lives in Annapolis.